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Inflation-Indexing Elements in Federal Entitlement Programs

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Summary

In recent years, various proposals have been discussed in the context of ways to reduce federal budget deficits. One of these proposals calls for the use of a different measure of consumer price change to index various provisions of federal programs, including cost-of-living adjustments (COLAs). For example, under current law, the Social Security COLA is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Under the proposal, the Social Security COLA would be based instead on the Chained Consumer Price Index for All Urban Consumers (Chained CPI-U or C-CPI-U). Because the goal of the Chained CPI-U is to better reflect how consumers alter their buying habits in response to changes in prices, supporters of the proposal argue that it is a more accurate measure for computing COLAs and making other automatic program adjustments. Opponents, however, view the proposal as a backdoor way of reducing benefits because the Chained CPI-U typically has risen more slowly than either the CPI-W or the traditional CPI-U, the Consumer Price Index for All Urban Consumers. Some observers point out that the Chained CPI-U is published as a preliminary value that is subject to revision over a period of up to two years and that it may not accurately reflect the cost of living for certain groups, such as the elderly population.

The current discussion of a potential change in the way the Social Security COLA is computed raises questions about indexing in other federal entitlement programs. The purpose of this report is to identify key indexing elements in major federal entitlement programs under current law and present the information in a summary table. As shown here, indexing affects more than benefit levels paid to individuals through COLAs. It also affects, for example, federal payments to providers and eligibility criteria for some programs. In addition, the report provides a brief description of the measures of consumer price change used to index various elements of these programs under current law, as well as the alternative measure of consumer price change (the Chained CPI-U) that has been proposed for computing Social Security COLAs and making inflation adjustments to other federal programs.

This report does not evaluate the best measure of consumer price change for making automatic inflation adjustments in federal entitlement programs. In addition, broader issues, such as the technical aspects of different measures of consumer price change, potential implications of using an alternative measure of price change to index various elements of major federal entitlement programs, and the indexing of other items (for example, the federal poverty threshold and parameters of the tax code) are beyond the scope of this report.

For technical information on how the Chained CPI-U is constructed and reported by the U.S. Bureau of Labor Statistics, see CRS Report RL32293, *The Chained Consumer Price Index: What Is It and Would It Be Appropriate for Cost-of-Living Adjustments?*, by Julie M. Whittaker. For information on how Social Security benefits could be affected by using the Chained CPI-U to compute annual COLAs, see CRS Report R43363, *Alternative Inflation Measures for the Social Security Cost-of-Living Adjustment (COLA)*, by Noah P. Meyerson.

Contents

Introduction 1
Current and Proposed Measures of Consumer Price Change 2
Policy Considerations 3
For Additional Reading 19

Tables

Table 1. Key Inflation-Indexing Elements in Major Federal Entitlement Programs 6

Contacts

Author Information 20

Introduction

In recent years, deficit reduction commissions, including the National Commission on Fiscal Responsibility and Reform, have recommended using an alternative measure of consumer price change to make inflation adjustments to federal programs government-wide.[1] The proposal would change, for example, the way the Social Security cost-of-living adjustment (COLA) is computed, as well as COLAs under other federal programs. Rather than using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) to compute the Social Security COLA, the proposal calls for basing the Social Security COLA on the Chained Consumer Price Index for All Urban Consumers (Chained CPI-U or C-CPI-U).[2] In April 2013, a modified version of the Chained CPI-U proposal was included in President Obama's FY2014 budget.[3]

In general, the goal of the Chained CPI-U is to more accurately reflect how consumers alter their buying habits in response to changes in prices. The Chained CPI-U typically has risen more slowly than either the CPI-W or the traditional CPI-U, the Consumer Price Index for All Urban Consumers. Supporters of the proposal argue that the CPI-W overstates inflation and, therefore, overestimates how much money is needed for Social Security beneficiaries to maintain their standard of living. Opponents of the proposal, however, view using the Chained CPI-U to adjust Social Security benefits for inflation as a backdoor way of reducing benefits. They maintain that the market basket of goods and services purchased by the elderly is different from that of the general population around which the CPI is constructed. It is more heavily weighted with health care expenditures, which rise notably faster than the overall CPI, and thus opponents contend that the cost of living for the elderly is higher than reflected by the overall CPI. For this reason, some policy makers support using the experimental Consumer Price Index for the Elderly (CPI-E) to compute the Social Security COLA.[4]

The current discussion of a potential change in the way the Social Security COLA is computed has raised questions about indexing provisions in other federal entitlement programs. The purpose of this report is to identify key indexing provisions in major federal entitlement programs under current law and present the information in a summary table (see **Table 1**). The programs included in the table are based on the major mandatory spending programs and categories shown in *The Budget and Economic Outlook: An Update,* published by the Congressional Budget Office (CBO) in August 2011, with some modifications.[5] For example, the Congressional Research Service (CRS) identified specific *programs* within CBO *categories* (such as "child nutrition") and

[1] For example, see *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform,* December 1, 2010, available at http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf.

[2] The Consumer Price Index (CPI) and its various series are measures of consumer price change published by the U.S. Department of Labor, Bureau of Labor Statistics (BLS). For more information on the CPI, see the BLS website at http://www.bls.gov/cpi/.

[3] The President's budget would apply the change only to non-means-tested benefit programs and to parameters of the tax code. See *Fiscal Year 2014 Budget of the U.S. Government,* page 46, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/budget.pdf.

[4] For information on the projected effects of using the Chained Consumer Price Index for All Urban Consumers (C-CPI-U) and the Consumer Price Index for the Elderly (CPI-E) to compute the Social Security cost of living adjustment (COLA), see Social Security Administration, Office of the Chief Actuary, Memo to the Honorable Xavier Becerra, June 21, 2011, available at http://ssa.gov/OACT/solvency/index.html.

[5] Specifically, see Table 1-4, the Congressional Budget Office's (CBO's) "Baseline Projections of Mandatory Spending," on pages 18-19. The CBO report is available at http://www.cbo.gov/ftpdocs/123xx/doc12316/08-24-BudgetEconUpdate.pdf.

included additional programs, such as Railroad Retirement, that are closely coordinated with the Social Security program. Although there are other federal entitlement programs with indexing provisions, the programs included in the table represent a majority of federal mandatory spending. **Table 1** is not intended to address or fully explain all of the indexing provisions within the laws and regulations governing these programs. Rather, it is an overview and a general guide.

The report also provides a description of the measures of consumer price change used to index various elements of these programs under current law and the measure of consumer price change that has been proposed for making inflation adjustments to a range of federal entitlement programs (the Chained CPI-U). It is not intended to evaluate the best measure of consumer price change for inflation adjustments within a particular program or programs. Similarly, broader issues, such as the technical aspects of different measures of consumer price change and the indexing of other items (for example, the federal poverty threshold and parameters of the tax code), are beyond the scope of this report.[6]

For information on how the Chained CPI-U is constructed and reported by the U.S. Bureau of Labor Statistics (BLS), see CRS Report RL32293, *The Chained Consumer Price Index: What Is It and Would It Be Appropriate for Cost-of-Living Adjustments?*, by Julie M. Whittaker. For information on how Social Security benefits could be affected by using the Chained CPI-U to compute annual COLAs, see CRS Report R43363, *Alternative Inflation Measures for the Social Security Cost-of-Living Adjustment (COLA)*, by Noah P. Meyerson.

Current and Proposed Measures of Consumer Price Change

BLS publishes the CPI-W and the CPI-U, whose month-to-month fluctuations reflect changes in the prices faced by consumers. More specifically, the change in the indexes is the average change in the retail price of a market basket composed of more than 80,000 items purchased by consumers at outlets (e.g., grocery stores and gasoline stations) in 87 urban areas across the nation. Changes in the prices of items in each area are averaged together using weights that reflect the items' importance in the spending of the CPI-W population[7] and the CPI-U population.[8] The national CPI-W and CPI-U are calculated by combining the local area data for all items in the market basket to obtain a U.S. city average. The rates of change in consumer prices as measured by the national CPI-W for all items and national CPI-U for all items have differed only slightly over time.[9]

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[6] For related information, see Center for Retirement Research at Boston College, *Implications of a "Chained" CPI*, by Alicia H. Munnell and William M. Hisey, September 2011, available at http://crr.bc.edu/images/stories/Briefs/IB_11-12_508.pdf.

[7] The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) population is composed of households for which at least one-half of household income comes from wage earners in clerical, craft, and sales, among other occupations, with at least one worker employed for 37 or more weeks. It covers about 32% of the U.S. population. The CPI-W series began in 1921.

[8] In 1978, BLS initiated the Consumer Price Index for All Urban Consumers (CPI-U) to cover more of the U.S. population. Households in the CPI-U, which covers about 87% of the population, include the CPI-W population plus households of salaried workers (e.g., professionals and managers), part-time workers, the self-employed, the unemployed, and households with no one in the labor force (e.g., retirees).

[9] For additional information, see CRS Report RL30074, *The Consumer Price Index: A Brief Overview* and U.S. Bureau of Labor Statistics, *Handbook of Methods*, Chapter 17. The Consumer Price Index, Washington, DC, June 2007, http://www.bls.gov/opub/hom/pdf/homch17.pdf.

In addition to their use in calculating constant-dollar estimates of other economic indicators (e.g., earnings), the national CPI-W and CPI-U, as well as indexes for specific goods and services (e.g., medical care), are used for inflation indexing by the federal government. The percentage change in the national CPI-W (all items) is the basis for determining the annual COLA of Social Security benefits, and the national CPI-U (all items) is the basis for determining certain features of the Earned Income Tax Credit, for example.[10] In addition, the percentage change in the CPI-U for specific groups of items is used to inflation-adjust various features of other federal programs. For example, per-meal subsidies paid to schools under child nutrition programs are tied to changes in the CPI-U "food away from home" index (which is a combination of indexes for full-service meals and snacks, limited-service meals and snacks, food at employee sites and schools, food from vending machines and mobile vendors, and other food away from home).

As part of its ongoing efforts to develop an index that more accurately measures changes in the cost of living, BLS developed the Chained CPI-U, also called the C-CPI-U. The population of the C-CPI-U and CPI-U are the same. The prices used to calculate the C-CPI-U, CPI-U, and CPI-W are the same. However, the formula for calculating the C-CPI-U better accounts for the ability of consumers to maintain their standard of living in the face of an increase in prices overall by changing their spending pattern toward items whose prices have increased more slowly and away from items whose prices have increased more quickly. [11]

Although the C-CPI-U was first published in 2002, the modified measure has not replaced the CPI-U or CPI-W and no federal program has used the C-CPI-U to date. Some members of the public policy community interested in curtailing growth of the U.S. budget deficit have proposed switching inflation-indexed federal programs and income tax provisions to the C-CPI-U, however. Because the C-CPI-U typically has risen more slowly than either the CPI-W and CPI-U, changing the basis for indexation could substantially lower outlays and raise revenues. But the proposal to switch from the CPI-W to the C-CPI-U has prompted concern in some quarters about the ability of Social Security beneficiaries to maintain their standard of living. Some have suggested instead changing to the experimental index for those at least 62 years of age (CPI-E)[12] in the arguable belief that this index better reflects the elderly population's experience with inflation (i.e., this population's above-average spending on health care services whose prices have increased faster than overall prices).[13]

Policy Considerations

As shown in **Table 1**, inflation adjustments affect many features of federal entitlement programs. The most recognized effect of inflation adjustments is on benefit levels. For example, monthly cash benefits, such as Social Security and Supplemental Security Income benefits, increase when a COLA is paid. Other types of benefits are indexed as well. Non-cash benefits provided under the Supplemental Nutrition Assistance Program (SNAP),[14] for example, are indexed to reflect

[10] In addition, different programs use different inflation *measurement periods*.

[11] For additional information on the C-CPI-U and the current policy debate, see CRS Report RL32293, *The Chained Consumer Price Index: What Is It and Would It Be Appropriate for Cost-of-Living Adjustments?*

[12] The 1987 amendments to the Older Americans Act of 1965 (P.L. 100-175) directed BLS to develop a consumer price index for the elderly members of the population.

[13] Congressional Budget Office, *Using a Different Measure of Inflation for Indexing Federal Programs and the Tax Code*, Economic and Budget Issue Brief, February 24, 2010; and CRS Report RS20060, *A Separate Consumer Price Index for the Elderly?*

[14] SNAP was formerly known as the Food Stamp Program.

food-price inflation. Coverage amounts under Medicare's standard outpatient prescription drug benefit (Part D) are adjusted for inflation.

Inflation adjustments also affect entitlement programs in ways that are less well known, from federal payments to providers to program eligibility requirements. For example, when a Social Security COLA is paid, the amount of wages subject to the Social Security payroll tax increases.[15] Indexing affects the number of Medicare beneficiaries subject to higher income-related Part B and Part D premiums, as well as the amount of Medicare payments to providers. In another example, indexing affects cost-sharing amounts paid by Medicaid beneficiaries for prescribed drugs and for non-emergency services provided in an emergency room. Per-meal subsidies paid to schools, for example, under the National School Lunch program are indexed. Finally, indexing affects eligibility criteria for some programs, including Medicaid and the child tax credit.

Generally, switching to the C-CPI-U to compute COLAs and index other elements of federal entitlement programs is considered as a cost-saving measure in an effort to reduce federal budget deficits. For example, CBO estimates that switching to the C-CPI-U to compute Social Security COLAs would reduce federal outlays by $31.0 billion over five years (FY2014-FY2018) and by $127.2 billion over 10 years (FY2014-FY2023).[16]

If applied on a government-wide basis, however, switching to the C-CPI-U could increase program costs in some cases. Under Medicare, for example, cost-sharing amounts for outpatient drugs paid by low-income beneficiaries who receive subsidies under Part D are indexed annually to the CPI-U under current law. Because the Chained CPI-U grows more slowly than the CPI-U when consumer prices increase, indexing cost-sharing amounts to the Chained CPI-U would result in an increase in federal Medicare spending.

Similarly, consider the refundable portion of the child tax credit (referred to as the additional child tax credit or ACTC). Taxpayers must have earnings that exceed the refundability threshold to claim the ACTC. The lower the threshold, the greater the number of low-income taxpayers who become eligible for the refundable child tax credit. Indexing the refundability threshold to a lower inflation index would expand the availability of the refundable child tax credit.

Additional considerations regarding use of the Chained CPI to index federal programs for inflation are reflected in congressional testimony by CBO on April 18, 2013. CBO stated, for example,

> Although many analysts consider the chained CPI to be a more accurate measure of the cost of living than the traditional CPI, using it for indexing could have disadvantages. The values of the chained CPI are revised over a period of several years, so affected programs and the tax code would have to be indexed to a preliminary estimate of the chained CPI that is subject to estimation error. Also, the chained CPI may understate growth in the cost of living for some groups. For instance, some evidence indicates that the cost of living grows at a faster rate for the elderly than for younger people, in part because changes in health care prices play a disproportionate role in older people's cost of living. However, determining the impact of rising health care prices on the cost of someone's standard of living is

[15] When a Social Security COLA is paid, the Social Security taxable wage base is increased based on average wage growth.

[16] Congressional Budget Office, *Using the Chained CPI to Index Social Security, Other Federal Programs, and the Tax Code for Inflation*, Testimony Before the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, April 18, 2013, Table 1, page 9, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44083_ChainedCPI.pdf. (Hereinafter cited as CBO Testimony, April 18, 2013.)

problematic because it is difficult to measure the prices that individuals actually pay and to accurately account for changes in the quality of health care.[17]

[17] CBO Testimony, April 18, 2013, pp. 1-2. See also Congressional Budget Office, *Using a Different Measure of Inflation for Indexing Federal Programs and the Tax Code*, Economic and Budget Issue Brief, February 24, 2010, available at http://www.cbo.gov/ftpdocs/112xx/doc11256/CPI_brief.pdf.

Table 1. Key Inflation-Indexing Elements in Major Federal Entitlement Programs

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
Social Security[a] (Program Contact for congressional clients: Dawn Nuschler)			
Are Benefits Indexed?	Social Security benefits are indexed using an annual cost-of-living adjustment (COLA) based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).	The CPI-W, which is published by the U.S. Department of Labor's Bureau of Labor Statistics, is based on retail market prices for more than 80,000 items collected in 87 urban areas across the United States. It is based on the purchasing patterns of individuals in the population who earn more than half of their income from clerical or wage occupations and were employed at least 37 weeks in the previous year. The CPI-W population represents about 32% of the total non-institutional population. Before 1978, the CPI-W was the only CPI published.[b] Information on the CPI-W is available at http://www.bls.gov/cpi/.	In 1972, Congress enacted legislation providing for automatic cost-of-living increases, beginning in January 1975 (P.L. 92-336).[c] Before the 1972 law, benefits were increased by Congress on an ad-hoc basis. The legislative history indicates that some policy makers supported automatic increases to avoid the substantial time lags between benefit increases that had occurred in the past. Others believed that automatic increases tied to the increase in consumer prices would alleviate the persistent political pressure to increase benefits. Moreover, they believed that linking benefit increases to the change in consumer prices would result in smaller benefit increases compared to what Congress would enact on an ad-hoc basis.[d]
Other Major Indexing Provisions	The Social Security COLA triggers other changes in the Social Security program. For years in which a COLA is payable (i.e., there is an increase in the CPI-W over the measuring period), the Social Security taxable wage base and the exempt amounts under the Social Security retirement earnings test (RET) are adjusted according to the Average Wage Index (AWI).	The national average wage indexing series is determined by the Social Security Administration. The AWI reflects the average amount of total wages for each year after 1950, including wages in non-covered employment and wages in covered employment in excess of the Social Security taxable wage base. (A detailed definition of the AWI can be found in Title 20,	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
	In addition, the substantial gainful activity (SGA) amount for blind disabled beneficiaries, which is tied to the RET, is adjusted according to the AWI. Although not triggered by the Social Security COLA, the SGA amount for non-blind disabled beneficiaries is adjusted according to the AWI. With respect to the computation of initial monthly benefits, elements of the benefit formula (the bend points) and workers' earnings histories (through age 60) are adjusted according to the AWI. (Note: The income thresholds that determine whether a beneficiary must pay federal income taxes on part of his/her Social Security benefits are *not* indexed.)	Chapter III, section 404.211(c) of the Code of Federal Regulations.)[e]	
Medicare (Program Contact for congressional clients: James Hahn)			
Are Benefits Indexed?	Some Medicare benefits are indexed annually to the Consumer Price Index for All Urban Consumers (CPI-U), such as the initial and catastrophic coverage amounts under the standard outpatient prescription drug benefit (Part D).	The CPI-U, which is published by the U.S. Department of Labor's Bureau of Labor Statistics, is based on retail market prices for more than 80,000 items collected in 87 urban areas across the United States. It is based on the purchasing patterns of all urban consumers and covers about 87% of the population. Beginning in 1978, the CPI-U was introduced so that a broader share of the population would be included in estimates of changes in the price level (as compared with the CPI-W).[f] Information on the CPI-U and its various components is available at http://www.bls.gov/cpi/.	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
Are Premiums Paid by Beneficiaries Indexed?	Generally, income thresholds used for the definition of high-income thresholds for higher Part B and Part D premiums are indexed annually based on the CPI-U. However, between 2010 and 2019, the thresholds are fixed; indexing is scheduled to resume in 2020.		
Are Cost-Sharing Amounts Paid by Beneficiaries Indexed?	Cost-sharing amounts for outpatient drugs paid by low-income beneficiaries receiving subsidies under Part D are also indexed annually to the CPI-U.		
Other Major Indexing Provisions	Provider payment amounts are also indexed. For detailed information, see CRS Report RL30526, *Medicare Payment Updates and Payment Rates*, *Medicare Payment Policies*.		
	Medicaid (Program Contacts for congressional clients: Elicia Herz / Evelyne Baumrucker / Alison Mitchell)		
Are Eligibility Criteria Indexed?	Indexing using the CPI-U applies to eligibility for long-term services and supports for persons with home equity interest below $525K (up to $768K at state option). At state option, indexing using the CPI-U applies to eligibility for families that meet the financial requirements of former states' AFDC cash assistance programs. The Patient Protection and Affordable Care Act (ACA, P.L. 111-148 as amended) requires states to use Modified Adjusted Gross Income (MAGI) to assess the financial eligibility for most of Medicaid's nonelderly populations beginning January 1, 2014. Certain populations (such as individuals with disabilities and other special populations) are exempt from the transition to the MAGI income counting rules.	See description of CPI-U under Medicare.	
Are Cost-Sharing Amounts Paid by Beneficiaries Indexed?	Indexing using the CPI-U, Medical Care Component, applies to traditional cost-sharing maximums, as well as selected components of alternative cost-sharing established under the	The Medical Care Component of the CPI-U covers the part of health care commodities, services, and health insurance premiums that consumers pay for "out of pocket."	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
	Deficit Reduction Act (DRA) of 2005; the applicable DRA components include cost-sharing for prescribed drugs and for non-emergency services provided in an emergency room. Note: In January 2013, CMS published a proposed rule that would allow state Medicaid programs to increase cost-sharing requirements for Medicaid enrollees. Among the proposed changes, states would be permitted to impose higher copayments for non-preferred drugs and nonemergency use of emergency departments. See U.S. Department of Health and Human Services, "Medicaid, Children's Health Insurance Programs, and Exchanges: Essential Health Benefits in Alternative Benefit Plans, Eligibility Notices, Fair Hearing and Appeal Processes for Medicaid and Exchange Eligibility Appeals and Other Provisions Related to Eligibility and Enrollment for Exchanges, Medicaid and CHIP, and Medicaid Premiums and Cost-Sharing," 78 *Federal Register* No. 14, January 22, 2013, Proposed Rule.	Source: *BLS Handbook of Methods*, Chapter 17, The Consumer Price Index, page 26, at http://www.bls.gov/opub/hom/pdf/homch17.pdf.	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
Other Major Indexing Provisions	States are required to make "disproportionate share hospital" (DSH) adjustments to the payment rates of hospitals treating large numbers of low-income and Medicaid beneficiaries. State-specific federal allotments are available for such payments. Currently, a state's DSH allotment is the higher of (1) a state's FY2004 DSH allotment or (2) the prior year's DSH allotment increased by the percentage change in CPI-U for the prior fiscal year. The Patient Protection and Affordable Care Act (ACA, P.L. 111-148 as amended) included a provision directing the Secretary of the Department of Health and Human Services to make aggregate reductions in federal Medicaid DSH allotments for each year from FY2014 to FY2020. The Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96) and the American Taxpayer Relief Act of 2012 (P.L. 112-240) extended the DSH reductions to FY2021 and FY2022. Under current law, in FY2023, states' DSH allotments will rebound to their pre-ACA reduced levels with the annual CPI-U adjustments for FY2014 to FY2023.	See description of CPI-U under Medicare.	
Supplemental Security Income (SSI) (Program Contact for congressional clients: Umar Moulta-Ali)			
Are Benefits Indexed?	The Social Security COLA, which is based on the CPI-W, triggers an increase in SSI benefits. SSI benefits are increased by the same percentage as the Social Security COLA.	See description of CPI-W under Social Security.	
Other Major Indexing Provisions	The Social Security COLA, which is based on the CPI-W, triggers an increase in the earned income exclusion for students who receive SSI benefits.	See description of CPI-W under Social Security.	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
	The amount of the exclusion is increased by the same percentage as the Social Security COLA. (The countable resource limits for SSI eligibility ($2,000 for an individual and $3,000 for a couple) are not indexed and have been at the current levels since 1989.)		
Earned Income Tax Credit (Program Contacts for congressional clients: Gene Falk / Margot Crandall-Hollick)			
Are Benefits Indexed?	Certain parameters used to calculate the credit are indexed to the CPI-U: maximum income level; phase-out income level (unmarried and married); and disqualifying investment income level.	See description of CPI-U under Medicare.	
Other Major Indexing Provisions	Not applicable. However, many other tax provisions that are indexed use the CPI-U.		
Child Tax Credit (Refundable Portion) (Program Contact for congressional clients: Margot Crandall-Hollick)			
Are Benefits Indexed?	The $1,000 per child value of the credit is NOT indexed to inflation and through the end of 2017, none of the other parameters (refundability threshold, phaseout threshold) are indexed for inflation. Under current law, beginning in 2018, the refundability threshold will be indexed for inflation occurring since 2001 (the threshold was $10,000 in 2001) based on the CPI-U. All else being equal, the higher the refundability threshold, the smaller the child tax credit for certain low-income taxpayers.	See description of CPI-U under Medicare.	
Other Major Indexing Provisions	From 2001-2007, the refundability threshold used to calculate the refundable portion of the child tax credit (sometimes referred to as the additional child tax credit or the ACTC) was indexed to the CPI-U. From 2008-2017, the refundability threshold ($3,000) is not	To calculate inflation occurring since 2001, the inflation adjustment for a given year is calculated as the amount by which the CPI-U for the preceding calendar year exceeds the CPI-U for calendar year 2000. The inflation	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
	indexed for inflation. After 2017, under current law, the refundability threshold ($10,000) will again be indexed to inflation occurring since 2001.	adjusted refundability threshold is then rounded to the nearest multiple of $50. For the purposes of inflation adjustments in the tax code, the CPI-U for a "calendar year" is the average of the CPI-U as of the close of the 12-month period ending on August 31 of such calendar year. Hence the CPI-U for 2001 would be the average CPI-U over the 12-month period September 1, 2000 to August 31, 2001.	
Unemployment Compensation (Program Contacts for congressional clients: Julie Whittaker / Katelin Isaacs)			
Are Benefits Indexed?	Unemployment compensation is indexed in 33 states, as well as the District of Columbia, Puerto Rico and the Virgin Islands, based on the Average Weekly Wage in covered employment.	Benefits are indexed to Average Weekly Wages in the state, for employees who are covered by the unemployment insurance program. The Average Weekly Wage (AWW) is determined by calculation set by each state's law.	Indexing is used in states where unemployment compensation is intended to replace a specific percentage of wages. Most states link the maximum weekly benefit amount to a percentage of the average weekly wage.
Other Major Indexing Provisions	Eighteen states and the Virgin Islands index the tax base of state taxes collected under the authority of the State Unemployment Tax Acts (SUTA). Most of these states automatically adjust the tax base according to the state Average Annual Wage. A few states index to the Average Weekly Wage. (Note: Federal taxes collected under the authority of the Federal Unemployment Tax Act (FUTA) are *not* indexed.)	In most states that index the taxable wage base, the tax base is indexed to the Average Annual Wage (AAW) in the state. State law determines the methodology and exact period of time to be used to calculate each state's AAW. The AAW is computed variously in the states as the sum of wages over preceding calendar year, the sum of wages for 12 months ending March 31, the sum of wages for 12 months ending June 30, or the sum of wages of the previous 12 months ending 6 months before effective date.	The intent is for the tax base to increase taxes in line with wage growth in the state and growth in the average weekly benefit amount.
Supplemental Nutrition Assistance Program (SNAP, Formerly the Food Stamp Program) (Program Contact for congressional clients: Randy Aussenberg)			
Are Benefits Indexed?	SNAP benefits are indexed to reflect food-price inflation, primarily by adjusting the maximum benefit but also by indexing several of the deductions.	Figures for the cost of U.S. Department of Agriculture food plans are calculated and published by the Agriculture Department's Center on Nutrition Policy and Promotion.	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
	Normally, the maximum benefit is adjusted annually to reflect the cost of the Thrifty Food Plan, a market basket of food determined by USDA to be minimally adequate to a household's needs. However, under the American Recovery and Reinvestment Act (ARRA; P.L. 111-5, as amended by P.L. 111-226 and P.L. 111-296), SNAP benefits have been increased temporarily to 113.6% of the June 2008 Thrifty Food Plan until November 1, 2013. Also, two SNAP deductions are impacted by inflation adjustment. The standard deduction, the deduction for which all SNAP households qualify, is determined by the larger of (1) 8.31% of income eligibility guidelines (which are adjusted using the CPI-U) or (2) a statutorily set minimum that is indexed by the CPI-U for items other than food. The excess shelter deduction's maximum is also adjusted annually by the CPI-U on November 30.	See description of CPI-U under Medicare.	
Other Major Indexing Provisions	Income eligibility standards are tied to changes in the federal poverty income guidelines, which are indexed annually based on the CPI-U. The federal poverty income guidelines are issued by the U.S. Department of Health and Human Services. Limits on liquid assets that eligible households may hold are indexed annually based on the CPI-U. Other aspects of this program are indexed, but indexing is not at the individual benefit level for those aspects. Rather, those examples affect the magnitude of funding at a nationwide or state level.	See description of CPI-U under Medicare.	
Child Nutrition Programs (Including School Meal Programs, Assistance for Child Care and Other Outside-of-School Programs) (Program Contact for congressional clients: Randy Aussenberg)			
Are Benefits Indexed?	Per-meal subsidies paid to providers (i.e., schools participating in the National School	Food Away from Home Component of the CPI-U covers the following categories: full	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
	Lunch Program and School Breakfast Program, and *child care centers* participating in the Child and Adult Care Food Program (CACFP)) are indexed annually based on the CPI-U, Food Away from Home Component. For CACFP *family child care homes*, the annual indexing is based on the CPI-U, Food at Home Component.	service meals and snacks; limited service meals and snacks; food at employee sites and schools; food from vending machines and mobile vendors; and other food away from home. Source: *BLS Handbook of Methods*, Chapter 17, The Consumer Price Index, Appendix 2, page 3, available at http://www.bls.gov/opub/hom/pdf/homch17.pdf. For a detailed listing of items included in the Food at Home Component of the CPI-U, see Appendix 2, pages 1-3, of the BLS document.	
Other Major Indexing Provisions	Income eligibility standards for free and reduced-price meals to lower-income children are tied to changes in the federal poverty income guidelines, which are indexed annually based on the CPI-U. The federal poverty income guidelines are issued by the U.S. Department of Health and Human Services. Other aspects of these programs are indexed, but indexing is not at the individual benefit level for those aspects. Rather, those examples affect the magnitude of funding at a nationwide or state level.	See description of CPI-U under Medicare.	
Civil Service Retirement System (CSRS)[g] (Program Contact for congressional clients: Katelin Isaacs)			
Are Benefits Indexed?	Benefits are indexed using an annual COLA based on the CPI-W. The program uses the same measuring period and formula for computing the COLA as the Social Security program. All CSRS retirees and survivors receive COLAs.	See description of CPI-W under Social Security.	
Other Major Indexing Provisions	Not applicable.		
Federal Employees Retirement System (FERS)[h] (Program Contact for congressional clients: Katelin Isaacs)			

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
Are Benefits Indexed?	Benefits are indexed using an annual COLA based on the CPI-W. All COLAs paid under FERS are limited if the rate of inflation exceeds 2.0%. Nondisabled retirees under age 62 do not receive COLAs. Survivors and disabled retirees are eligible for COLAs regardless of age.	See description of CPI-W under Social Security.	
Other Major Indexing Provisions	Not applicable.		
Military Retirement (Program Contact for congressional clients: David Burrelli)			
Are Benefits Indexed?	Benefits are indexed using an annual COLA based on the CPI-W. The program uses the same measuring period and formula for computing the COLA as the Social Security program.	See description of CPI-W under Social Security.	
Other Major Indexing Provisions	Not applicable.		
Veterans Disability Compensation (Program Contact for congressional clients: Umar Moulta-Ali)			
Are Benefits Indexed?	*Benefits are not indexed automatically.* Legislation is passed each year providing a COLA equal to the Social Security COLA, which is based on the CPI-W. By law, any increase for 1998-2013 is limited to the Social Security COLA.	See description of CPI-W under Social Security.	
Other Major Indexing Provisions	Not applicable.		
Veterans Pensions (Program Contact for congressional clients: Umar Moulta-Ali)			
Are Benefits Indexed?	The Social Security COLA, which is based on the CPI-W, triggers an increase in veterans pension benefits. Benefits are increased by the same percentage as the Social Security COLA.	See description of CPI-W under Social Security.	

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
Other Major Indexing Provisions	Not applicable.		
	Dependency and Indemnity Compensation (Program Contact for congressional clients: Umar Moulta-Ali)		
Are Benefits Indexed?	Benefits are not indexed automatically. Legislation is passed each year providing a COLA equal to the Social Security COLA, which is based on the CPI-W. By law, any increase for 1998-2013 is limited to the Social Security COLA.	See description of CPI-W under Social Security.	
Other Major Indexing Provisions	Not applicable.		
	Veterans Educational Assistance (Program Contact for congressional clients: Cassandria Dortch)		
Are Benefits Indexed?	Benefits for the largest veterans' educational assistance program, the Post-9/11 GI Bill, are indexed in two ways. Tuition and fees benefits are indexed according to changes in the average cost of undergraduate tuition in the United States, as determined by the National Center for Education Statistics (NCES). The housing allowance is indexed according to actual housing costs as determined by the Department of Defense (DOD). Since FY2010, the monthly stipends for the Montgomery GI Bill-Active Duty (MGIB-AD), Reserves Educational Assistance Program (REAP), and Veterans Retraining Assistance Program (VRAP) are indexed according to changes in the average cost of undergraduate tuition in the United States, as determined by the NCES. The monthly stipends for the Montgomery GI Bill-Selected Reserve (MGIB-SR) and Survivors' and Dependents' Educational Assistance (DEA) programs are indexed based on the CPI (all items, United States city average).	The Department of Education's NCES annually publishes average undergraduate tuition and fees based on data reported by educational institutions through the Integrated Postsecondary Education Data System (IPEDS). The Post-9/11 GI Bill housing allowance benefit is equal to the Basic Allowance for Housing (BAH) for a servicemember with dependents in pay grade E–5 in the relevant ZIP code area. Annually, DOD determines BAH, a U.S.-based allowance that provides uniformed servicemembers equitable housing compensation, based on housing costs in local housing markets.	Prior to 2008, most of the veterans' educational assistance benefits were indexed to the CPI (all items, United States city average). The Post-9/11 GI Bill tuition and fees benefit was indexed to the average cost of undergraduate tuition because average total tuition has increased at a higher rate than the change in the CPI (all items, United States city average) at least since the 1990s.
Other Major Indexing Provisions	Not applicable.		

	Application of Index	Brief Description of Index	Rationale for Using a Particular Index (If Known)
Subsistence Allowance for Veterans Vocational Rehabilitation and Employment Participants (Program Contact for congressional clients: Benjamin Collins)			
Are Benefits Indexed?	Benefits are indexed using a statutory formula based on the CPI. This formula is distinct from the Social Security COLA and the CPI-W is used in the calculation.	See description of CPI-W under Social Security.	
Other Major Indexing Provisions	Not applicable.		
Railroad Retirement Board (RRB) (Program Contact for congressional clients: Scott Szymendera)			
Are Benefits Indexed?	The Social Security COLA, which is based on the CPI-W, triggers an increase in RRB benefits. Tier I benefits (which are equivalent to Social Security benefits) are increased by the same percentage as the Social Security COLA. Tier II benefits (which are equivalent to private pensions) are increased by 32.5% of the Social Security COLA.	See description of CPI-W under Social Security.	RRB and Social Security benefits are closely coordinated.
Other Major Indexing Provisions	With respect to the computation of initial monthly tier I benefits, elements of the benefit formula (the bend points) and workers' earnings histories (through age 60) are adjusted according to the Average Wage Index (AWI).	See description of AWI under Social Security.	

Source: Table prepared by the Congressional Research Service.

Notes: The table is not intended to address or fully explain all of the indexing elements within the laws and regulations governing these programs. Rather, it is an overview and a general guide.

The Temporary Assistance for Needy Families (TANF) block grant is not included in the table. The TANF block grant does not provide entitlements to individuals. The block grant is an entitlement to the states, but is legislatively fixed and not adjusted. TANF does have contingency funds that increase grants to states if certain conditions are met. (Program Contact for congressional clients: Gene Falk) In addition, Foster Care, Adoption Assistance and Kinship Guardianship Assistance (Title IV-E of the Social Security Act) are not included in the table. Neither monthly benefits nor program eligibility are indexed. States have complete discretion to determine benefit levels. Federal rules govern program eligibility and they are mostly static. (Program Contact for congressional clients: Emilie Stoltzfus)

a. For more information, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*.

b. CRS Report RL30074, *The Consumer Price Index: A Brief Overview*.

c. Under P.L. 92-336, benefits were increased automatically each January if the cost of living increased 3% or more over the measuring period. Under current law, benefits are increased automatically if there is an increase of at least 0.1% in the CPI-W over the measuring period. If there is a less than 0.1% change in the CPI-W, benefits stay the same. For information on the Social Security COLA computation under current law, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*.

d. *Indexation of Federal Programs*, Senate Budget Committee, 97th Congress, 1st Session, May 1981, pp. 143-146.

e. *The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, p. 215.

f. CRS Report RL30074, *The Consumer Price Index: A Brief Overview*.

g. For more information, see CRS Report 94-834, *Cost-of-Living Adjustments for Federal Civil Service Annuities*.

h. Ibid.

For Additional Reading

For more information on the programs referenced in the table, see the following CRS reports.

Social Security: CRS Report R42035, *Social Security Primer*, by Dawn Nuschler

Medicare: CRS Report R40425, *Medicare Primer*, coordinated by Patricia A. Davis and Scott R. Talaga

Medicaid: CRS Report R43357, *Medicaid: An Overview*, coordinated by Alison Mitchell

Supplemental Security Income: CRS Report 94-486, *Supplemental Security Income (SSI)*, by William R. Morton

Earned Income Tax Credit: CRS Report R43805, *The Earned Income Tax Credit (EITC): An Overview*, by Gene Falk and Margot L. Crandall-Hollick

Child Tax Credit: CRS Report R41873, *The Child Tax Credit: Current Law and Legislative History*, by Margot L. Crandall-Hollick

Unemployment Compensation: CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs

SNAP: CRS Report R42505, *Supplemental Nutrition Assistance Program (SNAP): A Primer on Eligibility and Benefits*, by Randy Alison Aussenberg

Child Nutrition Programs: CRS Report R42353, *Domestic Food Assistance: Summary of Programs*, by Randy Alison Aussenberg and Kirsten J. Colello

Civil Service Retirement System / Federal Employees Retirement System: CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by Katelin P. Isaacs

Military Retirement: CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by David F. Burrelli and Barbara Salazar Torreon

Veterans Disability Compensation: CRS Report RL34626, *Veterans' Benefits: Disabled Veterans*, by Umar Moulta-Ali et al.

Veterans Pensions: CRS Report RS22804, *Veterans' Benefits: Pension Benefit Programs*, by Umar Moulta-Ali and Carol D. Davis

Dependency and Indemnity Compensation: CRS Report R40757, *Veterans' Benefits: Dependency and Indemnity Compensation (DIC) for Survivors*, by Umar Moulta-Ali

Veterans Educational Assistance: CRS Report R42785, *GI Bills Enacted Prior to 2008 and Related Veterans' Educational Assistance Programs: A Primer*, by Cassandria Dortch

Veterans Educational Assistance: CRS Report R42755, *The Post-9/11 Veterans Educational Assistance Act of 2008 (Post-9/11 GI Bill): Primer and Issues*, by Cassandria Dortch

Veterans Vocational Rehabilitation and Employment Program: CRS Report RL34627, *Veterans' Benefits: The Vocational Rehabilitation and Employment Program*, by Benjamin Collins

Railroad Retirement Board: CRS Report RS22350, *Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits*, by Scott D. Szymendera

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